



## **Meeting Summary**

### **Wednesday, September 16, 2015 1:00 p.m.**

### **House Room D, General Assembly Building**

The Joint Commission on Technology and Science held its third meeting of the interim on Wednesday, September 15, 2015. The meeting focused on research and development in the Commonwealth.

After Delegate Tom Rust, chairman of JCOTS, called the meeting to order, Delegate Tim Hugo presented House Bill 1743. HB 1743 was introduced during the 2015 Session of the General Assembly and referred to JCOTS for further study. The bill would substantially amend the existing research and development tax credit by changing the formula used to determine the amount of the credit and removing the \$6 million aggregate cap. Delegate Hugo said that the existing credit targets smaller companies and that his amendments were aimed at larger companies conducting a more substantial volume of research and development in the Commonwealth. He recognized that the fiscal impact of the bill was an issue that needed to be discussed.

Delegate Hugo invited Aimee Strudwick Gilroy, Senior Manager of State Government Relations for Raytheon Company, to present its perspective on the need for updates to the research and development tax credit. Ms. Gilroy said that research and development is vital to Raytheon's global competitiveness. She affirmed that she supports the current tax credit and its value to small businesses, but that the tax credit doesn't have value for companies investing millions of dollars in research and development. To alleviate the concerns that small businesses have with HB 1743, she added that she would support the development of a second, alternative credit that conforms to the federal simplified research and development tax credit. She contended that broadening the credit would present economic development opportunities for the Commonwealth and could be used to recruit new business.

In responding to questions, Ms. Gilroy said that Raytheon would propose a credit using the federal simplified methodology that would have a \$1 million cap per company and a \$25 million annual aggregate cap. She also stated that an option to limit the fiscal impact of the bill would be limited to the amount of liability that could be offset by the credit to 50 percent.

Jeff Gallagher, chief executive officer of Virginia Bio, addressed JCOTS and said that the existing credit is effective in its current form for entrepreneurs and that its current refundability makes it particularly valuable to pre-revenue companies. He said he was

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supportive of the idea of an alternative credit that would leave the current credit intact, as companies in the biotechnology industry tend to be smaller and benefit from the current credit. He was concerned, however, that the fiscal impact of an alternative credit would be high, and faced with limited resources, thought that there were other ways to grow the economy. He advised JCOTS to consider the return on investment.

Josh Levi, Vice President of Policy for the Northern Virginia Technology Council (NVTC), also addressed JCOTS. He said of NVTC's 1,000 member companies, half have fewer than 10 employees. When the research and development tax credit was enacted in 2011, it was focused on small companies. He said that a second, alternative credit would encourage growth. However, he also said he was leery of diluting the existing credit, so that it does not become overly subscribed like Maryland's research and development credit.

JCOTS staff provided a general overview of research and development expenditures in the Commonwealth. This included a review of the existing research and development tax credit, the sales tax exemption for research and development expenses, the Commonwealth Research and Commercialization Fund, and other general fund appropriations related to research and development. A copy of the overview is available on the JCOTS website.

In discussing HB 1743, there was concern that the bill, as introduced, would undermine the original legislative intent of helping start-up companies. However, the need to incentivize larger companies to locate and expand in Virginia is also important. While the members did not develop any formal recommendation regarding the path forward for an alternative research and development tax credit, there was general agreement that such a credit should not be refundable and should have a reasonable cap. In light of the discussion at the meeting, Delegate Rust suggested that the companies interested in an alternative credit keep working on the issue and develop a bill for the 2016 Session of the General Assembly. JCOTS, however, would not be recommending a bill.

In other business, Delegate Ken Plum, chair of the JCOTS Nanosatellite Advisory Committee, said that the Advisory Committee heard a proposal from the Virginia Space Grant Consortium regarding small satellite development. The proposal would require a substantial budget investment that should be considered by the executive branch. Delegate Plum made a motion, seconded by Senator John Watkins, that the issue of the investment of state funds be sent to the Virginia Aerospace Advisory Council for review and consideration. The motion was adopted unanimously.

The meeting was adjourned.

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